



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2011 Biennium

<b>Bill #</b>	SB0060	<b>Title:</b>	Annual market conduct exams and 5-year financial exams for state fund
<b>Primary Sponsor:</b>	Erickson, Ron	<b>Status:</b>	As Introduced

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<b>Expenditures:</b>				
Proprietary	\$219,154	\$401,854	\$190,965	\$196,241
<b>Revenue:</b>				
Proprietary	\$219,154	\$401,854	\$190,965	\$196,241
<b>Net Impact-General Fund Balance</b>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

**Description of fiscal impact:** Annually, Montana State Fund (MSF) would be required to incur the expense of a market conduct examination and once every five years, beginning in FY 2011, incur the expense of an in depth financial examination. The Legislative Audit Division (LAD) would administer the procurement and selection of a qualified service provider to perform the examinations. MSF would be required to pay for all costs associated with the market conduct and financial examinations, including travel and any service to support examination information requests.

### FISCAL ANALYSIS

#### Assumptions:

#### **Legislative Branch - Legislative Audit Division (LAD)**

1. The market conduct examination is not a regulatory examination that would impair auditor independence.
2. The market conduct examination is not an audit.
3. The market conduct examination would be performed in accordance with the National Association of Insurance Commissioners Market Conduct Handbook Procedures.
4. The market conduct examination is required to be performed by an accredited insurance examiner.
5. There are approximately 600 accredited insurance examiners licensed nationwide.
6. The legislative auditor would contract for the market conduct examination of the MSF.

7. The LAD estimates it will require 80 hours of staff time to prepare a new request for proposal for the market conduct examination, which can be absorbed by current resources.
8. The in-depth financial examination is not an audit.
9. The in-depth financial examination is not duplicative of the annually required financial and compliance audits in accordance with 39-71-2361(1), MCA.
10. The in-depth financial examination would be conducted in accordance with the National Association of Insurance Commissioners Examination Handbook procedures.
11. The in-depth financial examination would be performed by an accredited insurance examiner.
12. The legislative auditor would contract for the in-depth financial examination of the Montana State Fund.
13. The LAD estimates it will require 80 hours of staff time to prepare a new request for proposal for the in depth financial examination, which can be absorbed by current resources.
14. The cost of the market conduct examination and in-depth financial examination will be paid for by Montana State Fund to the contractor.

**Montana State Fund (MSF)**

15. Expenses for market conduct examinations will be incurred by MSF in FY 2010 and each subsequent year.
16. Expenses for the in-depth financial examination will be incurred by MSF in FY 2011 and every fifth year thereafter.
17. Market conduct examination preparation, staff coordination, follow-up reporting, and monitoring or implementing potential process adjustments will require 1.00 FTE for a Compliance Officer position for MSF. This position will also be responsible for coordinating the financial examination every five years. The position will require a professional certification, such as a CPA, to coordinate the examinations with LAD, contractors, and MSF staff. Total cost for personal services and operating expenses of the position are estimated to be: \$79,492 - FY 2010; \$75,154 – FY 2011; \$77,497 – FY 2012; and, \$79,937 – FY 2013.
18. Based on estimates provided to MSF from a consultant certified and experienced in performing both market conduct and financial examinations, MSF used the following assumptions:
  - a. *Market Conduct Examination:* The initial market conduct examination would take place in FY 2010 and require 800 hours at \$150 per hour plus 20% for associated expenses for a cost of \$144,000. Subsequent market conduct examinations will take 600 hours at \$150 per hour increased by a 2.5% inflation factor each year plus 20% expenses for a cost of \$110,700 in FY 2011. FY 2012 costs are \$113,468. FY 2013 costs are \$116,304. The estimated range of the level of expense for an examination of this type was between \$92,250 and \$144,000 excluding travel expenses.
  - b. *Financial Examination:* The financial examination to take place in FY 2011 would require 1,200 hours at \$150 per hour plus 20% for associated expenses for a cost of \$216,000. The subsequent financial examination will not occur until FY 2016. The estimated range of the level of expense for an examination of this type was between \$144,000 and \$216,000 excluding travel expenses.
19. All MSF revenues are generated from premiums charged to policyholders and investment income. Expenses are included when establishing annual rates.

	<b><u>FY 2010 Difference</u></b>	<b><u>FY 2011 Difference</u></b>	<b><u>FY 2012 Difference</u></b>	<b><u>FY 2013 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b>Montana State Fund</b>				
<b>FTE</b>	1.00	1.00	1.00	1.00
<b><u>Expenditures:</u></b>				
Personal Services	\$72,062	\$74,309	\$76,631	\$79,050
Operating Exp.	\$3,092	\$845	\$866	\$887
Operating Exp. -Examinations	\$144,000	\$326,700	\$113,468	\$116,304
<b>TOTAL Expenditures</b>	<b>\$219,154</b>	<b>\$401,854</b>	<b>\$190,965</b>	<b>\$196,241</b>
<b><u>Funding of Expenditures:</u></b>				
Proprietary	\$219,154	\$401,854	\$190,965	\$196,241
<b>TOTAL Funding of Exp.</b>	<b>\$219,154</b>	<b>\$401,854</b>	<b>\$190,965</b>	<b>\$196,241</b>
<b><u>Revenues:</u></b>				
Proprietary	\$219,154	\$401,854	\$190,965	\$196,241
<b>TOTAL Revenues</b>	<b>\$219,154</b>	<b>\$401,854</b>	<b>\$190,965</b>	<b>\$196,241</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
Proprietary	\$0	\$0	\$0	\$0

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*Sponsor's Initials*\_\_\_\_\_  
*Date*\_\_\_\_\_  
*Budget Director's Initials*\_\_\_\_\_  
*Date*